

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7703

Petition of Green Mountain Power Corporation    )  
for Approval of a Senior Unsecured Revolving    )  
Credit Facility of up to \$45,000,000, with up to    )  
a \$15,000,000 "Accordion" Feature, Pursuant to    )  
30 V.S.A. § 108    )

Order entered: 2/4/2011

**I. INTRODUCTION**

On December 22, 2010, Green Mountain Power Corporation ("GMP" or "the Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. §108 to enter into an unsecured \$45 million revolving credit facility (the "Credit Facility"), which includes an "accordion" feature of up to \$15 million, for a term of five years, with JPMorgan Chase, N.A. (the "Bank") and a second participatory bank to be determined by GMP. The Credit Facility will replace an existing \$30 million revolving credit facility with Sovereign Bank (lead bank) and KeyBank National Association which expires on June 14, 2011. The purpose for the Credit Facility is to provide liquidity for general corporate purposes, including working capital and to refinance existing debt. The Petition was supported by the testimony of Dawn D. Bugbee, Chief Financial Officer for GMP, and by accompanying exhibits.

On January 28, 2011, the Vermont Department of Public Service ("DPS") filed its Determination Under 30 V.S.A. § 202(f) to the Board recommending that the Board approve the Petition without hearing and finding the requested \$45 million revolving credit facility, along with the \$15 million accordion feature, as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

On January 31, 2011, the DPS informed the Board that it had reviewed the petition and supporting documentation. Based on its review, the Department recommended that the Board find the Company's petition to be consistent with the general good of the State without hearing or further investigation.

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of GMP's Petition pursuant to 30 V.S.A. §108 is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the testimony and exhibits presented in this docket and the DPS letters of January 28 and January 31, 2011, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

## **II. FINDINGS**

1. GMP is a Vermont corporation, with its principal place of business in Colchester, Vermont, and is subject to the jurisdiction of the Board. Petition at 1.

2. The Company's current five-year \$30 million revolving credit facility with Sovereign Bank and KeyBank National Association expires on June 14, 2011. GMP seeks to replace the current credit facility with a new five-year Credit Facility in the amount of \$45 million, which includes an "accordion" feature that allows for an additional \$15 million in credit availability. GMP proposes to enter into the Credit Facility with JPMorgan Chase Bank, N.A. (as "lead bank") and a second participatory bank to be determined by the Company. Bugbee pf. at 2-3; Petition at 1.

3. The Bank has agreed to enter into the Credit Facility prior to the expiration of GMP's current revolver, while honoring the Company's current fee structure which is a margin of 35 basis points over the London Interbank Offered Rate ("LIBOR") up to an outstanding balance of \$15 million through June, 2011. After June, 2011, and for amounts in excess of \$15 million advanced prior to June, 2011, the interest rate will be, at the Company's option, either: (i) 30-day LIBOR plus an "Applicable Rate" margin ranging between 95 and 260 basis points depending on GMP's unsecured credit rating with Standard & Poor's Financial Services ("S&P") and/or Moody's Investors Services, Inc. ("Moody's"); or (ii) the "Alternate Base Rate" which is the higher of the Bank's Prime Rate, federal funds rate plus 50 basis points, or 30-day LIBOR plus 100 basis points, plus the Applicable Rate margin (based on the same credit rating formula as reflected in the first option), plus, if applicable, a facility fee for the unused portion of the Credit

Facility.<sup>1</sup> Under the Company's current credit rating, the margin would be priced at 115.0 basis points and the unused facility fee, if applicable, would be 25.0 basis points. The following table provides a breakout of the Bank's ratings-based price structure for the Applicable Rate:<sup>2</sup>

<b>Borrower's Rating</b>	<b>Unused Fee</b>	<b>LIBOR</b>
$\geq$ A-/A3	20.0 basis points	95.0 basis points
BBB+/Baa1	25.0 basis points	115.0 basis points
BBB/Baa2	30.0 basis points	140.0 basis points
BBB-/Baa3	37.5 basis points	200.0 basis points
$\leq$ BB+/Ba1	50.0 basis points	260.0 basis points

Bugbee pf. at 2-3; exh. DDB-1.

4. The Credit Facility will provide most of GMP's liquidity and will be used for working capital, to refinance existing debt, and for other corporate purposes. The five-year term provides greater certainty of ongoing credit availability and reduces facility fees since the Company will not have to pay recurring up-front fees until the five-year term has expired. GMP believes that the Bank's proposed price structure will provide a consistent competitive borrowing rate over the Credit Facility's term. Bugbee pf. at 3-4.

5. The Credit Facility contains an "accordion" feature which allows the Company to increase the amount of credit available under the facility by an additional \$15 million, up to a

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1. The Petition does not provide a clear explanation for this pricing structure. Based on my review of the Bank's Term Sheet (attached to the Petition as Exhibit DDB-1), the interest rate for borrowings by GMP under option (ii) will be priced by selecting one of three established base rates, whichever is the highest, consisting of either the Bank's Prime Rate (typically equal to the Prime Rate as published in the "Money Rates" section of the *Wall Street Journal*), the federal funds rate plus 50 basis points, or 30-day LIBOR plus 100 basis points. Once the highest base rate is selected, the Bank will then add a margin consisting of the Applicable Rate established according to the unsecured credit rating formula reflected in the above table.

2. According to the Bank's Term Sheet, the Bank will adjust what it refers to as the "Applicable Rate" pricing, or margin, based on a periodic review of GMP's unsecured credit ratings as reported by S&P and Moody's. If the ratings established by S&P and Moody's fall within different categories, the Applicable Rate shall be based on: (i) the category reflecting the average between the two ratings; or (ii) one category above the next highest category should no average exist (e.g., a ratings spread of A- and Baa3 would use the Applicable Rate for the BBB+/Baa1 category as reflected in the above table). Although the previous example is very unclear, and no further explanation is provided in the Term Sheet or the Petition, it appears that the Bank intends to use the higher category if the average falls between categories.

total maximum availability of \$60 million, in the event that GMP needs more borrowing capacity. GMP would exercise this option, if needed, to protect the financial stability of the Company. In the event that GMP does exercise the accordion feature, GMP will file a notice with the Board and DPS explaining the reason why the option was exercised under the Credit Facility. Bugbee pf. at 4.

6. The Company solicited six different lending institutions for the proposed financing. The Bank's offer proved to be the most beneficial based on the following factors: (i) the Bank was willing to make a five-year commitment whereas all other lenders would only commit for three years; (ii) the Bank was the only institution willing to honor the existing interest rate on GMP's current credit facility; and (iii) the Bank indicated that it would set the borrowing rate based on GMP's best credit rating,<sup>3</sup> while other institutions indicated that they would choose the lower rating in the event of a split between the Company's ratings (GMP estimates that this factor alone could save the Company 25 basis points in borrowing costs.) *Id.*

7. The capitalization of the Company as of September 30, 2010, was as follows:

Long-term debt	\$169,765,000
Short-term debt	\$ 17,300,000
Common equity	\$179,150,000

Capitalization as of December 31, 2010, is projected as follows:

Long-term debt	\$169,765,000
Short-term debt	\$ 8,000,000
Common equity	\$201,100,000 <sup>4</sup>

Bugbee pf. at 5.

8. The change represented above is within the range of the Company's target capital structure, which is approximately 51% equity and 49% debt. Practically speaking, the amount of leverage in the Company's capital structure will fluctuate by 3-5 percentage points around the target capital structure amount. While the Board should always be concerned with worsening

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3. My interpretation of what GMP refers to as its "best credit rating" means the highest rating category assigned by the Bank under the Bank's pricing structure discussed in footnote 2 above according to the table in Finding No. 3.

4. GMP received a \$20 million equity infusion from Northern New England Energy Corporation in October, 2010.

financial ratios, the increased leverage (resulting from the proposed increase in availability under the new Credit Facility) in the rate year should not be problematic as long as the Company's earnings and cash flows do not decline materially. Bugbee pf. at 7.

9. GMP's corporate credit ratings for unsecured debt are Baa1 with Moody's and BBB with S&P. The Moody's credit rating lies three notches above the lowest available investment grade rating of Ba1. The S&P rating lies two notches above the lowest available investment grade rating of BB. The Company's secured debt ratings are A2 with Moody's and A- with S&P. Bugbee pf. at 5.

10. The Company has met with its rating agencies and has communicated its five-year forecast regarding future long-term debt financing, other significant financial assumptions, and the forecasted impacts of the leverage and rate increases. The rating agencies have not expressed concerns that the forecasted results would reduce the Company's credit rating. Bugbee pf. at 7.

11. The proposed transaction will strengthen the Company's short-term liquidity position. With the proposed credit facility increase from \$30 million to \$45 million, the new Credit Facility will allow GMP to maintain healthy liquidity levels and provide collateral support for other power purchase arrangements if the Company's power contract with Vermont Yankee is not renewed. The completion of the proposed transaction will bring GMP's equity and debt capitalization levels in line with the Company's targets and should not adversely affect the Company's investment ratings. Bugbee pf. at 8.

### **III. DISCUSSION & CONCLUSION**

Based upon the findings and the evidence in the record, I find that GMP's Petition as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the Petition and authorize GMP to replace its current credit facility with the new five-year Credit Facility in the amount of \$45 million, including an "accordion" feature that allows for, if needed, an additional \$15 million in credit availability.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. §811.

Dated at Montpelier, Vermont this 4<sup>th</sup> day of February, 2011.

s/ Jay E. Dudley

Jay E. Dudley

Hearing Officer

#### **IV. ORDER**

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are accepted and adopted.
2. The Board consents to Green Mountain Power Corporation's ("GMP") request to replace its existing \$30 million revolving credit facility with a new unsecured \$45 million revolving credit facility, including an "accordion" feature of up to \$15 million, for a term of five years, with JPMorgan Chase, N.A., and a second participatory bank to be determined by GMP, as set forth in the findings, above.
3. In the event that GMP exercises the accordion feature, GMP shall file a notice with the Board and the Vermont Department of Public Service ("DPS") within 30 days thereof, and shall include an explanation of why the option was exercised under the Credit Facility.
4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that GMP may implement with the proceeds of the proposed credit facility. Nothing in this approval shall preclude the DPS or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.
5. GMP shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. Upon request, GMP shall provide the Board and the DPS with a complete set of final executed documents.

Dated at Montpelier, Vermont this 4<sup>th</sup> day of February, 2011.

s/ James Volz

s/ David C. Coen

s/ John D. Burke

PUBLIC SERVICE

## BOARD

OF VERMONT

OFFICE OF THE CLERK

FILED: February 4, 2011

ATTEST: s/ Judith C. Whitney

Deputy Clerk of the Board

*Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: [psb.clerk@state.vt.us](mailto:psb.clerk@state.vt.us))*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.*